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FRANCE-USSR: Results of Cheysson's Visit

French Foreign Minister Cheysson's trip to the USSR, which ended on Monday, served mainly to underscore the differences between the two countries. [redacted] 25X1

[redacted] 25X1

Comment: The series of meetings in Moscow clearly was difficult and apparently did little to improve bilateral relations. The trade imbalance continues to be a sore point with Paris, and Soviet efforts to place more orders with French firms have not made the French more flexible. Because the atmosphere at the talks was so poor, Mitterrand probably will delay serious consideration of a summit meeting. [redacted] 25X1

The Soviets had hoped to use the visit to provoke dissension within the Western Alliance over INF and other issues. Their media coverage highlighted what they presented as fundamental agreement on the need for disarmament and detente. [redacted] 25X1

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NIGERIA: Reduction in Oil Price

Nigeria's decision last week to cut oil prices by $5.50 per barrel is an attempt to reverse declining sales and the continuing deterioration in the economy before national elections are held this summer. [redacted] 25X1

[redacted] 25X1 The US Embassy in Lagos estimates current production cannot cover even the costs of food imports and debt servicing. [redacted] 25X1

[redacted] 25X1

The loss of credit, combined with import restrictions imposed since last April, is making the recession worse. Two vehicle assembly plants recently shut down because of the lack of spare parts, putting 3,000 workers out of jobs. [redacted] 25X1

Comment: Nigeria needs a substantial increase in oil sales to keep its current account deficit below $4 billion, the largest amount Lagos can finance on international markets. Otherwise, President Shagari will have to cut imports and government spending drastically, steps he prefers to postpone until after the elections. His opponents already are making the economy an election issue. [redacted] 25X1

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OPEC: Effort To End Price Dispute

Oil ministers of the Gulf Cooperation Council and Iraq decided yesterday in Riyadh to cut oil prices by at least $4 per barrel. Saudi Oil Minister Yamani warned that the Council countries would consider further cuts unless OPEC established its benchmark price at the lower level and set production quotas. Consultations with Libya, Indonesia, and Venezuela have led to a call for an emergency meeting of OPEC ministers next week. [redacted] 25X1

Comment: The majority of OPEC's members appears close to agreement on pricing and production, and they may be able to work out a compromise with Nigeria next week. An accord probably would include reducing the benchmark price of oil from $34 per barrel to around $28 and establishing individual production quotas totaling about 16.5 million barrels per day. If Riyadh again demands a $3-per-barrel differential between Arab Light and the higher quality African crude, however, Nigeria is likely to refuse to concede more than a $1.50-per-barrel advantage to Persian Gulf exporters. It was this issue that caused the failure of the OPEC meeting in January. [redacted] 25X1

[redacted] 25X1

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[redacted] 25X1

CUBA-BOLIVIA: Diplomatic Strategy

Recent changes in Bolivia's ruling coalition have prompted Cuba to reconsider its relationship with La Paz, [redacted] Havana is concerned over its loss of influence in the Bolivian Government as a result of the recent resignations of those cabinet members whose party was most sympathetic to Cuba. [redacted] 25X1 25X1 25X1

[redacted]

Comment: The Cuban strategy will complement the recent maneuverings of President Siles. Following a strong US demarche over the reestablishment of Cuban-Bolivian relations, Siles decided to delay exchanging missions and to restore relations below the ambassadorial level. He also has refused to allow the opening of a *Prensa Latina* office in La Paz. In any event, the anti-Communist military would under no circumstances be likely to condone a large Cuban contingent in the country. [redacted] 25X1

SPAIN-US: Protocol Signed

The signing in Madrid today of the Protocol to the US-Spanish Bilateral Agreement negotiated last year commits the Socialist government to seeking parliamentary approval of the accord. The Protocol states that defense arrangements with Washington exist independently of NATO and reaffirms provisions calling for renegotiation if Spain withdraws from the Alliance. 25X1

Comment: The Socialists are charting a middle course. By endorsing the Agreement, they assure conservatives that Spanish security needs will be met regardless of the government's eventual decision on NATO membership. By attaching the Protocol, however, the Socialists ease leftist concerns by making clear that the Agreement does not commit Spain to remaining in NATO. 25X1

USSR-AFGHANISTAN: Disappointment With Babrak

A deputy director of the Soviet Institute of Oriental Studies has said the USSR is unhappy with President Babrak's failure to restore order in Afghanistan. At the time of the Soviet invasion, a study by the Institute had predicted the situation in Afghanistan would quiet down in two or three years. The official also stated, however, that Babrak will not be replaced because this would damage the USSR's prestige. 25X1

Comment: Moscow seemed disappointed with Babrak as early as the spring of 1980, when he was unable to unite Afghan Communist factions and win support for his regime from non-Communists. Although the Soviets evidently have searched for a replacement, they probably have decided no prospective candidate would be more effective than Babrak. They also are likely to want to avoid the appearance of instability that a change would imply. 25X1

CHINA: Government Leader To Step Down

Beijing has confirmed octogenarian Marshal Ye Jianying will resign as Chairman of the National People's Congress Standing Committee, probably at a meeting scheduled to convene tomorrow. A government spokesman cited the age and deteriorating health of the nominal head of state as reasons for his resignation. [redacted] 25X1

Comment: Ye's earlier refusals to relinquish any of his official posts despite his infirmity had inspired other older officials to resist retirement, and his resignation will encourage the reformers allied around Deng Xiaoping. Although Ye will remain a member of the Politburo Standing Committee and a vice chairman of the party's Military Commission, he presumably is no longer able to influence events. Ye's loss of standing will deprive conservatives in the party and military of an important advocate in Beijing. [redacted] 25X1

VIETNAM-KAMPUCHEA: Statement on Troop Withdrawals

Vietnam announced at the Indochina summit meeting held this week in Vientiane that it would withdraw annually an undisclosed number of troops from Kampuchea if the security situation allowed. Hanoi warned that if the withdrawals were misused by "the other side," Vietnam and Kampuchea would consult on how to respond. [redacted] 25X1

Comment: The withdrawal offer is not a substantive change in Vietnamese policy. A similar statement was made last year, but the subsequent withdrawal appeared to be only a troop rotation. In a meeting yesterday with the US Ambassador in Bangkok, moreover, Vietnamese officials reiterated Hanoi's position that complete withdrawal will come only after the "threat from Beijing" has ended and resistance forces have ceased using Thai territory. [redacted] 25X1

[redacted] 25X1

INDIA: Space Launch Expected

India probably will launch its current space launch vehicle within the next two months. [redacted] 25X1 25X1 The Indians hope the launcher, which can place a 40-kilogram satellite into near-Earth orbit, will become operational in 1983 or 1984. The launch vehicle is being used to develop heavier boosters that will carry payloads with remote sensing applications. [redacted] 25X1 25X1

<u>Comment</u>: The development of the booster, which began in the late 1960s, has been slow. It could become operational next year, if this launch and a fifth one that reportedly is scheduled for late this year or early 1984 are successful. If the impending launch succeeds, however, the Indians may consider the fifth flight as the first operational one. [redacted] 25X1

Mexico: Projected Effects of Economic Deterioration

	Continued Economic Slide [a]	Deeper Crisis [b]
Change in GDP (*percent*)	−3	−10
Unemployment expansion	1,300,000	2,000,000
Inflation (*percent*)	100	300
Change in real merchandise imports (*percent*)	5	−40
Decline in supplies of locally available goods and services (GDP plus exports minus imports) (*percent*)	−4	−13
Change in investment (*percent*)	−15	−35
Change in per capita consumption (*percent*)	−5	−12
Current account balance (*billion US $*)	−3.2	0.1
Free market exchange rate by the end of the year (*pesos per US $*)	200 to 250	350 to 400

[a] Assumes Mexico renegotiates IMF and international banker support, and average oil price for 1983 falls to $27 per barrel.

[b] Assumes that Mexico loses IMF support; that foreign bankers, having lost confidence in Mexican economic policies, cancel credit lines and work to reduce bank exposure; and that average oil price for 1983 falls to $22 per barrel.

Special Analysis

MEXICO: Austerity Program in Difficulty

Mexico's economy continues in steep decline with no foreseeable respite. President de la Madrid's decisive early action in addressing the financial crisis encouraged the international financial community, but lower oil revenues, triple-digit inflation, and debt payment problems are endangering the new IMF-sponsored economic stabilization package. If the austerity program is to survive, de la Madrid will have to slow the rate of inflation, persuade foreign bankers to provide capital at the levels projected by the IMF, and keep public dissatisfaction within bounds. Further deterioration in any of these areas--particularly if accompanied by a plunge in the price of oil--could cause a deep depression. [redacted] 25X1

As consumer prices and unemployment grow, de la Madrid is finding it harder to retain labor and middle class support for the austerity program. Labor leaders, for example, are demanding an emergency wage hike of nearly 50 percent. Meanwhile, the chances for wildcat strikes and large-scale protests are growing. [redacted] 25X1

De la Madrid's main challenge continues to be to placate the populace without having to jettison the austerity program. To forestall serious trouble, he already has reversed commitments to cut food and public transport subsidies and has launched a large public works program. If his action gives the impression that he is backing off from the austerity program, however, the public will be even less willing to accept the sacrifices it imposes. [redacted] 25X1

The Price of Oil and Foreign Financial Trends

External economic factors also are disrupting de la Madrid's austerity efforts. Oil revenues for January fell $100 million, and February's are likely to drop another $500 million. Mexico has made it clear it will now adjust prices according to world trends, and some recovery in export volume is likely in March. Receipts probably will still fall short of projected revenues in the coming months. [redacted] 25X1

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Lower international interest rates saved Mexico almost $150 million per month in January and February. These savings offset some of the lost oil revenues. [redacted] 25X1

Arranging the financing needed to complete the economic stabilization program continues to be a major problem. [redacted] 25X1 25X1 Because negotiations on the $20 billion debt rescheduling package have not begun, Mexico City almost certainly will have to extend its own principal payments moratorium beyond the deadline of 23 March. [redacted] 25X1

Missing IMF Targets

Since the IMF program was based on erroneous assumptions regarding inflation and oil earnings, Mexico is likely to miss performance targets for the budget deficit and public-sector credit. This probably will prompt the IMF and international bankers to withhold funds while Mexico renegotiates terms. [redacted] 25X1

If most of the international financial community remains persuaded that de la Madrid is on the right course--and the chances seem better than even that it will--only a temporary interruption in loan disbursements is likely. Economic activity would drop by some 3 percent. Bankers will lose confidence, however, if Mexico misses IMF targets by wide margins and fails to obtain better terms. [redacted] 25X1

The Harsh Consequences

International funds would dry up, imports would plummet, and economic activity would fall by about 8 percent. A sharp lowering of world oil prices could push this to 10 percent. [redacted] 25X1

A deterioration of this magnitude in economic activity would bring strong domestic pressure to repudiate the foreign debt. Pressure for nationalist policies like those of the last months of the Lopez Portillo administration also would increase. [redacted] 25X1

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